

**DEPARTMENT OF REVENUE
FISCAL YEAR 2019 BUDGET TESTIMONY
MAY 8, 2018**

INTRODUCTION

Good morning, President Clarke and Members of City Council. I am Frank Breslin, Revenue Commissioner. Joining me today are Michelle Bethel, Deputy Revenue Commissioner, and Marisa Waxman, First Deputy Revenue Commissioner. I am pleased to provide testimony on Revenue's Fiscal Year 2019 Operating Budget.

DEPARTMENT MISSION & PLANS

Mission: The Department of Revenue collects tax and non-tax revenue due to the City and tax revenue due to the School District of Philadelphia promptly and efficiently by increasing on-time payments and decreasing delinquency.

Plans for Fiscal Year 2019: The Department of Revenue will continue efforts to meet or exceed revenue estimates by increasing on-time and delinquent payments. This will be achieved by making on-time payment easier, expanding enrollment in assistance and payment programs to keep bills manageable, and compelling delinquent payments through consistent enforcement. The Department will achieve this through:

Voluntary Compliance Initiatives to Increase On-Time Payment:

- Expansion of ePay/eFile options for additional tax types.
- Adding eBilling to save on postage costs and collect revenue more timely.
- Expanding language access services by adding preferred languages to bills and payment agreements.
- Replacing the 35-year old integrated tax system to improve tax administration functions, taxpayer experience, and revenue collection processes. The Department is currently working with a planning vendor to document the existing Taxpayer Information Processing System (TIPS), identifying the requirements for a new system, analyzing the business impact and change management approach for the new system, and assisting with system procurement.
- Enhancing staff onboarding and training to ensure high quality customer service.

Increased Delinquent Collections:

- Continue to improve our use of information from the Data Warehouse and Case Management system to pick the most appropriate accounts for collection, including, for a few examples, the identification of taxpayers who fail to file, the selection of underreporting taxpayers for audit, and the targeting of delinquent taxpayers for legal enforcement.
- Automate the placement of tax debt with collection agencies to increase collections.
- Implement automatic bank account withdrawals for taxpayers in payment agreements, to make it easier for taxpayers to pay and to reduce the number of defaulted agreements.

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- Dedicate more resources to enforcement actions including the filing of liens, placement with collection firms, sequestration, and foreclosure.

Relief and Assistance Program Enrollment – Making Paying Debt More Affordable:

- Increase the percentage of eligible homeowners who are enrolled in tax relief programs, such as EITC.
- Provide over \$100 million in assistance to homeowners and residential water customers through relief programs; including OOPA, Senior Tax Freeze and Water Discounts, and the Tiered Assistance Program (TAP) through outreach and education efforts.

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BUDGET SUMMARY & OTHER BUDGET DRIVERS

Staff Demographics Summary (as of December 29, 2017): All Funds				
	Total	Minority	White	Female
Number of Full-Time Staff	613	470	143	442
Number of Exempt Staff	74	32	42	44
Number of Executive Staff (deputy level and above)	7	3	4	4
Average Salary, Full-Time Staff	\$47,070	\$44,894	\$54,223	\$45,736
Average Salary, Exempt Staff	\$69,103	\$65,557	\$71,806	\$66,461
Average Salary, Executive Staff	\$125,760	\$120,000	\$130,081	\$123,831
Median Salary, Full-Time Staff	\$41,128	\$41,128	\$44,231	\$41,128
Median Salary, Exempt Staff	\$63,154	\$61,349	\$64,404	\$61,349
Median Salary, Executive Staff	\$120,000	\$120,000	\$127,662	\$122,500

Employment Levels (as of December 29, 2017): All Funds		
	Budgeted	Filled
Number of Full-Time Positions	668	613
Number of Part-Time Positions	0	1
Number of Exempt Positions	70	74
Number of Executive Positions (deputy level and above)	7	7
Average Salary of All Full-Time Positions	\$46,826	\$47,070
Median Salary of All Full-Time Positions	\$41,128	\$41,128

General Fund Financial Summary by Class						
	FY17 Original Appropriations	FY17 Actual Obligations	FY18 Original Appropriations	FY18 Estimated Obligations	FY19 Proposed Appropriations	Difference: FY19-FY18
Class 100 - Employee Compensation	\$21,657,214	\$20,417,912	\$22,231,193	\$21,933,221	\$22,156,816	\$223,595
Class 200 - Purchase of Services	\$7,523,149	\$7,971,138	\$7,350,349	\$7,200,349	\$7,630,749	\$430,400
Class 300/400 - Materials, Supplies & Equipment	\$1,023,476	\$767,395	\$910,976	\$910,976	\$919,976	\$9,000
Class 500 - Contributions	\$0	\$4,000	\$0	\$0	\$0	\$0
	\$30,203,839	\$29,160,445	\$30,492,518	\$30,044,546	\$30,707,541	\$662,995

Contracts Summary (Professional Services only)¹						
	FY13	FY14	FY15	FY16	FY17	FY18 YTD (Q1 & Q2)
Total amount of contracts	\$12,350,027	\$30,710,421	\$24,630,191	\$23,194,941	\$16,314,615	\$27,192,000
Total amount to M/W/DSBE	\$6,260,800	\$17,202,201	\$10,852,058	\$5,954,900	\$8,048,560	\$12,803,300
Participation Rate	51%	56%	44%	34%	32%	47%

¹ Prior to FY16, the participation rate included all contract types combined. Starting in FY16, the participation rate is for professional services contracts only.

Total M/W/DSBE Contract Participation Goal (Public Works; Services, Supplies & Equipment; and Professional Services combined)			
	FY17	FY18	FY19
M/W/DSBE Contract Participation Goal	45%	46%	46%

PROPOSED BUDGET OVERVIEW

Proposed Funding Request:

The proposed Fiscal Year 2019 General Fund budget totals \$30,707,541 a \$662,995 increase over Fiscal Year 2018 estimated obligation levels. This increase is primarily due to \$223,595 in salary increases for District Council #33 staff and the addition of an exempt Law Data Analyst position needed to provide analytical support to the Sheriff Sale operations, particularly to facilitate acquisitions by the Land Bank. Additionally, \$430,000 is needed to fund increases in outside appraiser contract services to provide expert reports and testimony when taxpayers contest appraisals for Real Estate Tax purposes.

The proposed budget includes:

- \$22,156,816 in Class 100, a \$223,595 increase over FY18. This funding will support the payroll costs for 669 budgeted positions including temporary positions needed during peak operational periods throughout the year.
- \$7,630,749 in Class 200, a \$430,400 increase over FY18. This funding is for the Purchase of Services in support of delinquent collections, modernization of revenue collection processes with eFile/ePay options and free tax preparation services and tax relief assistance to homeowners. The increase will fund increases in outside appraiser contract services to provide expert reports and testimony when taxpayers contest appraisals for Real Estate Tax purposes.
- \$919,976 in Class 300/400, a \$9,000 increase over FY18. This funding will allow the Department to procure office supplies and services, equipment and furniture in support of Department programs and initiatives.

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STAFFING LEVELS

The Department is requesting 669 budgeted positions for FY19 in All Funds, an increase of one position over FY18.

The increase is attributed to the addition of one exempt Law Data Analyst position needed to provide analytical support to the Sheriff Sale operations, particularly to facilitate acquisitions by the Land Bank.

NEW HIRES

New Hires (from 7/1/2017 to December 2017)							
	Total Number of New Hires	Spanish	French	Malayalam	Bengali	Hindu	Korean
Black or African American	24	-	1	1	-	1	-
Asian	5	-	-	1	1	-	1
Hispanic or Latino	4	4	-	-	-	-	-
White	7	1	-	-	-	-	-
Total	40	5	1	2	1	1	1

New Hires (after January 1, 2018)			
	Total Number of New Hires	Spanish	Korean
Black or African American	19	-	-
Asian	1	-	1
Hispanic or Latino	2	2	-
White	8	-	-
Total	30	2	1

PERFORMANCE, CHALLENGES, AND INITIATIVES

Policy, Analysis, Executive Direction and Administration:

FY19 Strategic Goals				
<ul style="list-style-type: none"> Start implementation of new Integrated Tax System to replace the existing system. Expand information technology infrastructure to add more processing power and electronic filing/payment options. Maximize impact of the Data Warehouse with predictive analytics. 				
FY19 Performance Measures				
Measure	FY17 Actual	FY18 YTD (Q1 + Q2)	FY18 Target	FY19 Target
Percent of budgeted positions filled ¹	90.0%	91.0%	95.0%	95.0%

¹ While Revenue is currently ramping up entry-level hiring, the Department had a delayed start to the hiring process due to unit reorganizations and attrition. As a result, Revenue believes that the percentage will be closer to 95% by the end of the year.

Tax Billing, Accounting, and Customer Service:

FY19 Strategic Goals				
<ul style="list-style-type: none"> Maximize revenue collections through increasing on-time and delinquent payments. Implement mandatory ePay for large business tax payments. Modernize revenue collection instruments, including chip card readers. 				
FY19 Performance Measures				
Measure	FY17 Actual	FY18 YTD (Q1 + Q2)	FY18 Target	FY19 Target
Percent of real estate tax collected within calendar year ¹	95.5%	N/A	95.5%	95.5%
Total dollar amount collected (General Fund) ²	\$3.481B	\$1.459B	\$3.760B	\$3.912B
Total dollar amount collected (School District) ³	\$974M	\$225M	\$1.058B	TBD

¹ This is an annual measure. The FY17 year-end figure represents Calendar Year 2016, which is the most recent year for which 12 months of data is available.

² This includes real estate, BIRT, all wage taxes, and all other taxes. Wage taxes include the PICA tax. Due to the timing of the collection of taxes, the FY18 YTD amount collected is low.

³ School District amounts are from their budget adopted on 5/31/17. This includes Payment In Lieu of Taxes (PILOT) revenue. The FY19 target will be available when the School District budget is issued later in FY18.

Delinquent Tax Collection:

FY19 Strategic Goals				
<ul style="list-style-type: none"> Increase delinquent tax collections. Streamline process for providing lien and judgment payoffs. Reduce the amount of delinquent real estate principal outstanding. 				
FY19 Performance Measures				
Measure	FY17 Actual	FY18 YTD (Q1 + Q2)	FY18 Target	FY19 Target
Percent delinquent real estate tax accounts in payment agreements ¹	25.4%	N/A	25.5%	25.5%

¹ This is an annual measure.

Taxpayer Assistance and Credit Programs:

FY19 Strategic Goals				
<ul style="list-style-type: none"> • Increase Earned Income Tax Credit (EITC) enrollment through outreach and communication efforts. • Revamp Owner-Occupied Payment Agreement procedures and policies to reduce risk of homeowner tax foreclosure. • Increase the percent of eligible homeowners receiving tax relief. 				
FY19 Performance Measures				
Measure	FY17 Actual	FY18 YTD (Q1 + Q2)	FY18 Target	FY19 Target
Percent of homeowners receiving relief ¹	78.0%	N/A	79.0%	79.0%
Number of free Federal Tax Returns prepared to support the Earned Income Tax Credit (EITC) ²	26,099	N/A	25,600	25,600

¹ This is an annual measure.

² This is an annual measure. Tax season and EITC tax preparations begin in late January. Revenue’s contract is for 25,600 tax returns.

Water Billing, Accounting and Customer Service:

FY19 Strategic Goals				
<ul style="list-style-type: none"> • Implement e-billing option as an alternative to mailed monthly bills. • Increase on-time collections. 				
FY19 Performance Measures				
Measure	FY17 Actual	FY18 YTD (Q1 + Q2)	FY18 Target	FY19 Target
Percent of water bills paid in 90 days	86.5%	84.0%	87.0%	87.0%
Dollar amount of water bills collected	\$632M	\$321M	\$638M	\$638M

Delinquent Water Collections:

FY19 Strategic Goals				
<ul style="list-style-type: none"> • Increase delinquent water collections. • Increase Sheriff Sales for high-dollar water debt. 				
FY19 Performance Measures				
Measure	FY17 Actual	FY18 YTD (Q1 + Q2)	FY18 Target	FY19 Target
Percent of delinquent Water accounts in payment agreements ¹		N/A	6.7%	TBD

¹ This is an annual measure. With the introduction of TAP and because this is an annual measure, Revenue will revisit this measure and set an FY19 target when data is available at the end of FY18.

Water Assistance Programs:

FY19 Strategic Goals				
<ul style="list-style-type: none"> • Increase TAP enrollment. • Increase Senior Citizen Water Discount enrollment. 				
FY19 Performance Measures				
Measure	FY17 Actual	FY18 YTD (Q1 + Q2)	FY18 Target	FY19 Target
Percent of completed applications processed within 30 days ¹	N/A	22.5%	100.0%	100.0%

¹ This is a new measure for FY18, so data is not available for FY17. Programming needed to capture the information was not completed until the end of FY18 Q2. The Water Revenue Bureau is working to address the TAP applications in a first-in, first-out method. The target, depending on the volume, is to be closer to the metric of 30 days within the fourth quarter.

OTHER BUDGETARY IMPACTS

Federal and State (Where Applicable)

The Federal Tax Cuts and Jobs Act passed by Congress in December 2017 has created uncertainty for City revenue. A number of provisions contained in the bill could affect local revenue collections, increase the volatility of collections, and make revenue estimates in the future much more difficult to predict. For example, the law doubles immediate expensing from \$500,000 to \$1 million, which could reduce net income for businesses that is taxable in Philadelphia. State legislation is required to allow the city to decouple from this policy.

Proposed state legislation altering the Sterling Act to require that non-resident Wage Taxes be remitted back to the home jurisdiction of the commuter working in Philadelphia could have a negative impact estimated at \$180 million annually if passed and surrounding jurisdictions all implemented a 1% Earned Income Tax. Additionally, recently introduced state legislation to bar the taxation of the distribution of sweetened beverages would create a dramatic revenue loss.

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CONTRACTING EXPERIENCE

M/W/DSBE Participation on Large Professional Services Contracts											
Top Five Largest Contracts, FY18											
Vendor Name	Service Provided	Dollar Amount of Contract	RFP Issue Date	Contract Start Date	Ranges in RFP	% of M/W/DSBE Participation Achieved	\$ Value of M/W/DSBE Participation	Total % Participation - All DSBEs	Total \$ Value Participation - All DSBEs	Local Business (principal place of business located within City limits) [yes / no]	Waiver for Living Wage Compliance? [yes / no]
Goehring, Rutter & Goehm	Real Estate Delinquent Tax Collection	\$8,000,000	6/30/2016	7/1/2017	MBE: 17%-22%	15%	\$1,200,000	18%	\$1,440,000	No	No
					WBE: 3%-7%	3%	\$240,000				
					DSBE: Best Efforts		\$0				
Linebarger Goggan Blair & Sampson	Real Estate Delinquent Tax Collection	\$8,000,000	6/30/2016	7/1/2017	MBE: 17%-22%	0%	\$12,000	100%	\$8,000,000	Yes	No
					WBE: 3%-7%	100%	\$7,988,000				
					DSBE: Best Efforts		\$0				
Revenue Collection Bureau, Inc.	Discovery & Delinquent Tax Collection	\$2,950,000	7/13/2016	7/1/2017	MBE: 12%-16%	100%	\$2,950,000	100%	\$2,950,000	Yes	No
					WBE: 10%-15%		\$0				
					DSBE: Best Efforts		\$0				
Pioneer Credit Recovery, Inc.	Delinquent Tax Collection	\$2,200,000	7/13/2016	7/1/2017	MBE: 12%-16%	4%	\$88,000	20%	\$440,000	No	No
					WBE: 10%-15%	16%	\$352,000				
					DSBE: Best Efforts		\$0				
Harris & Harris, LTD	Delinquent Tax Collection	\$1,000,000	7/1/2017	6/30/2018	MBE: 12%-16%	12%	\$120,000	22%	\$220,000	No	No
					WBE: 10%-15%	10%	\$100,000				
					DSBE: Best Efforts		\$0				

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EMPLOYEE DATA

Staff Demographics (as of December 2017)					
Full-Time Staff			Executive Staff		
	Male	Female		Male	Female
	African-American	African-American		African-American	African-American
<i>Total</i>	84	319	<i>Total</i>	0	2
<i>% of Total</i>	14%	52%	<i>% of Total</i>	0%	29%
<i>Average Salary</i>	\$45,166	\$43,927	<i>Average Salary</i>	N/A	\$120,000
<i>Median Salary</i>	\$40,490	\$41,128	<i>Median Salary</i>	N/A	\$120,000
	White	White		White	White
<i>Total</i>	57	86	<i>Total</i>	2	2
<i>% of Total</i>	9%	14%	<i>% of Total</i>	29%	29%
<i>Average Salary</i>	\$58,169	\$51,607	<i>Average Salary</i>	\$132,500	\$127,662
<i>Median Salary</i>	\$49,761	\$43,341	<i>Median Salary</i>	\$132,500	\$127,662
	Hispanic	Hispanic		Hispanic	Hispanic
<i>Total</i>	9	18	<i>Total</i>	1	0
<i>% of Total</i>	1%	3%	<i>% of Total</i>	14%	0%
<i>Average Salary</i>	\$55,858	\$48,370	<i>Average Salary</i>	\$120,000	N/A
<i>Median Salary</i>	\$46,997	\$41,701	<i>Median Salary</i>	\$120,000	N/A
	Asian	Asian		Asian	Asian
<i>Total</i>	20	13	<i>Total</i>	0	0
<i>% of Total</i>	3%	2%	<i>% of Total</i>	0%	0%
<i>Average Salary</i>	\$49,555	\$46,904	<i>Average Salary</i>	N/A	N/A
<i>Median Salary</i>	\$50,657	\$43,540	<i>Median Salary</i>	N/A	N/A
	Other	Other		Other	Other
<i>Total</i>	1	6	<i>Total</i>	0	0
<i>% of Total</i>	0%	1%	<i>% of Total</i>	0%	0%
<i>Average Salary</i>	\$35,429	\$47,295	<i>Average Salary</i>	N/A	N/A
<i>Median Salary</i>	\$35,429	\$42,765	<i>Median Salary</i>	N/A	N/A
	Bilingual	Bilingual		Bilingual	Bilingual
<i>Total</i>	36	31	<i>Total</i>	1	0
<i>% of Total</i>	6%	5%	<i>% of Total</i>	14%	0%
<i>Average Salary</i>	\$54,484	\$46,860	<i>Average Salary</i>	\$120,000	N/A
<i>Median Salary</i>	\$49,556	\$42,744	<i>Median Salary</i>	\$120,000	N/A
	Male	Female		Male	Female
<i>Total</i>	171	442	<i>Total</i>	3	4
<i>% of Total</i>	28%	72%	<i>% of Total</i>	43%	57%
<i>Average Salary</i>	\$48,835	\$45,736	<i>Average Salary</i>	\$125,760	\$123,831
<i>Median Salary</i>	\$46,997	\$41,128	<i>Median Salary</i>	\$120,000	\$122,500

LANGUAGE ACCESS

1) Has your leadership received language access training?

Yes, the leadership team received language access training.

2) Do you currently have a language access coordinator?

Yes, the Department of Revenue's language access coordinator is Jessica Varela, Chief Fiscal and Administrative Officer. We also have three divisional liaisons who work with the coordinator on language access matters.

3) Has your department written a language access plan and is it posted online?

Yes, there is a language access plan that is posted online: <https://beta.phila.gov/documents/language-access-plans>

4) Explain what your department has done to improve language access services over the past year.

The Department has provided the Language Access Plan to employees as a refresher. We have translated additional documents and expect to translate other documents considered to be vital that have not been translated in multiple languages. The Department's goal in FY19 is to provide yearly Language Access Plan training via the Learning Management System and certified current bilingual staff.